

SIGA RESOURCES LIMITED

2005 ANNUAL REPORT

CORPORATE PROFILE

Siga Resources Limited is a TSX Venture Exchange listed company with 13,358,809 common shares issued and outstanding. The Corporation's trading symbol is "SIG".

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NOTICE OF ANNUAL GENERAL MEETING

You are cordially invited to attend the Annual and Special Meeting of Siga Resources Limited at 10:30 a.m. on December 8, 2005 in the Conference Room at the offices of the Company, located at suite 400, 333 – 5th Avenue S.W. Calgary, Alberta T2P 3B6. Telephone: (403) 262-5075.

REPORT TO SHAREHOLDERS

During the past year, the Company purchased an additional 17% average working interest in its Lodgepole project, increasing its average working interest to 35%. The Lodgepole property consists of eight (8) producing Cardium and Belly River oil wells and two (2) water injection wells. The Company is currently testing up-hole potential in one well and has several other prospects.

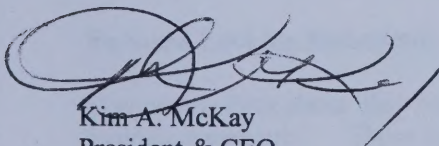
At Enchant, Alberta the Company participated in the drilling and abandonment of a Sawtooth test well. Siga's participation was 33 1/3% and its cost was \$117,000. Subsequent to year-end, the property was farmed out to an industry partner, who also drilled and abandoned a second Sawtooth test well on the lease.

At Chigwell Siga participated as to a 12.5% interest in the drilling of a well at 4-7-41-25 W4M. Subsequent to year-end, three separate zones were production tested and found non-commercial gas reserves. The well will be abandoned during the current year.

The Company's production currently comes from long established Alberta crude oil and natural gas pools with very low decline rates. Production rates are 70% weighted to natural gas and 30% to crude oil. Siga currently has a reserve life of 5 years for proved reserves, and 11.8 years for proved and probable reserves.

During the current year the Company will focus on increasing its size through a merger or amalgamation with another company. Siga will continue to pursue our goal of achieving growth in the value of our common shares by adding low cost reserves, enhancing current production from our existing properties and maintaining careful control of our overhead and operating costs.

We again wish to thank you, our Shareholders, for your ongoing support and interest in the Corporation.



Kim A. McKay
President & CEO

October 19, 2005

CORPORATE GOVERNANCE

The responsibility of the Board of Directors of Siga Resources Limited is to manage or supervise the management of the business and affairs of the Corporation. The Board's fiduciary duty is to act honestly and in good faith with a view to the best interests of the Corporation. The Siga Board consists of six (6) members, four (4) of whom are independent Directors in accordance with Section 7.1 of OSC Rule 61-501, and two (2) are inside Directors. The Independent Board Members have been appointed for their expertise in certain technical areas, their business acumen, integrity and experience.

The Board of Directors of Siga have established and delegated authority to the following committees:

- Audit Committee
- Reserves Committee
- Compensation Committee
- Executive Committee

Our external auditors are required to report directly to the Audit Committee. The Audit Committee is financially literate and is chaired by a member with accounting and financial expertise.

The Annual Financial Statements are audited by our external auditor. The quarterly reports are reviewed by the audit committee.

Management's Discussion and Analysis For the Year Ended June 30, 2005

Date: October 19, 2005

Siga Resources Limited is an oil and gas exploration development and producing company. The Company is classified as a Tier 2 company of the TSX Venture Exchange.

The following information has been prepared by management and should be read in conjunction with the audited financial statements and notes for the years ended June 30, 2005 and 2004 for a better understanding of Siga's financial position and results of operations. All data is presented in Canadian dollars. For the purposes of calculating a barrel of oil equivalent ("boe"), the Company uses a factor of six to one ("6:1") for converting one thousand cubic feet of natural gas to a boe.

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Business Risks

Exploration, development and production of oil and natural gas involve numerous risks that even the combination of experience and prudent evaluation may not be sufficient to overcome. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

Siga employs qualified people, uses sound operating and business practices, and evaluates all potential and existing wells using the latest technology. Siga maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

Forward Looking Statements

Statements throughout this report that are not historical facts may be considered "forward looking statements." These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans are forward looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, changes in demand for, and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Company operates and other factors discussed in this report.

Selected Annual Information

	Year ended June 30, 2005	Year ended June 30, 2004	Year ended June 30, 2003
Production, net of royalties	\$772,077	\$601,727	\$539,024
Net income	\$59,567	\$46,330	\$188,701
Per share – basic and diluted	\$.004	\$.003	\$.014
Current Assets	\$438,837	\$135,462	\$144,399
Property, plant and equipment, net	\$1,148,396	\$799,688	\$794,926
Total assets	\$1,587,233	\$935,150	\$939,325
Total current liabilities	\$822,540	\$311,681	\$416,233
Asset Retirement Obligation	\$287,511	\$205,854	\$151,807
Shareholders' equity	\$477,182	\$417,615	\$371,285
Common shares outstanding	13,358,809	13,358,809	13,358,809

Production, net of royalties, has increased steadily due to the purchase of production and high commodity prices in 2004 and 2005. The net income dropped significantly in 2004 due to the significant increase in operating costs and depletion but has increased slightly in 2005. Total current liabilities which includes our line of credit are high in the current year because of increased capital expenditure during the year. Our capital assets have also increased substantially from \$799,688 in 2004 to \$1,148,396 in 2005. Shareholders' equity has shown constant improvement and no new common or preferred shares were issued during the last three years.

Results of Operations

Sales Volumes

	Year ended June 30, 2005	Year ended June 30, 2004	% Change
Natural gas (mcf/d)	234	274	(15)
Oil and liquids (bbls/d)	16	9	78
Average (boe/d)	55	55	-

Production averaged 55 boe per day in 2005 and 2004. Natural gas sales declined 15 percent to 234 mcf per day in 2005 primarily due to the declines from the Company's wells at Bruce 6-17 – 50-16W4M and Herronton 5-09-21-25W4M. Oil and liquids sales increased 78 percent to 16 bbls per day. These production gains were generated from the Lodgepole wells, which came from the increase in ownership during the year from an average of 17 percent working interest to 35 percent.

Selling Prices

	Year ended June 30, 2005	Year ended June 30, 2004	% Change
Natural gas (\$/mcf)	\$7.03	\$6.15	14
Oil and liquids (\$/bbl)	\$56.11	\$42.16	33
Average (\$/boe)	\$46.15	\$37.81	22

Our earnings and financial condition are dependent on the prices received for our natural gas and crude oil production. The prices received by the Company have fluctuated widely during recent years. During the year ended June 30, 2005, the Company's oil price increased 33% to \$56.11 per bbl from \$42.16 per bbl in 2004. Gas prices also increased, rising from an average of \$6.15 in 2004 to \$7.03 in 2005.

Sales Revenue

	Year ended June 30, 2005	Year ended June 30, 2004	% Change
Natural gas (\$000's)	601	615	(2)
Oil and liquids (\$000's)	320	143	124
Total	921	758	22

Total revenue increased 22 percent to \$920,634 in 2005 from \$757,806 in 2004. Oil and liquids increased 124 percent to \$319,484 in 2005 from \$142,547 in 2004 due to a 78 percent increase in sales volumes and a 33 percent increase in prices. Natural gas revenues for 2005 fell 2 percent to \$601,150 in 2005 from \$615,258 in 2004 as the decline in average sales volumes in 2005 offset any benefit of the increased sales prices.

Netbacks (\$ per boe)

	Year ended June 30, 2005	Year ended June 30, 2004	% Change
Revenue	46.15	37.81	22
Royalty, net of ARTC	(7.45)	(7.79)	(4)
Operating Costs	(12.79)	(11.02)	16
Netback	25.91	19.00	36

The Company's netback for the year ended June 30, 2005 increased by 36 percent due to the higher commodity prices.

Capital Expenditures

Siga's capital expenditures are summarized below:

	Year ended June 30, 2005 (\$000's)
Land	23
Drilling and completion	266
Net Property Acquisition	177
Total capital expenditures	466

During the first quarter, the Company acquired a 33 1/3% working interest in one section of Crown land at Enchant, Alberta, that contained a Sawtooth formation gas prospect. During the last quarter of 2005, this well was drilled and abandoned for a cost to Siga of \$116,697.

During the year, the Company participated as to a 12.5% interest in the drilling of a well at Chigwell, Alberta. The cost to Siga was \$107,017. The well at 4-7-41-25W4 was being tested at year-end. Subsequent to year-end, it was determined that the well was not capable of production in commercial volumes and will be abandoned.

During the second quarter of 2005, the Company purchased producing wells from an industry partner with varying interests in ownership. The total cost of this purchase was \$31,345 and it added production of 6.0 barrels of oil equivalent per day.

During the year, the Company purchased additional interests in the Lodgepole area for \$146,000 increasing its ownership from an average of 17% to 35%.

Summary of Quarterly Results

	Quarter ended June 30, 2005	Quarter ended March 31, 2005	Quarter ended December 31, 2004	Quarter ended September 30, 2004	Quarter ended June 30, 2004	Quarter ended March 31, 2004	Quarter ended December 31, 2003	Quarter ended September 30, 2003
Production, net of royalties (\$)	213,911	212,643	192,127	153,396	155,795	151,591	122,004	172,338
Net Income (Loss)(\$)	(72,358)	36,318	45,787	49,820	(40,489)	37,878	(18,588)	67,529
Per Share	(.005)	\$0.003	\$0.003	\$0.004	(\$0.003)	\$0.003	(\$0.001)	\$0.005

Production, net of royalties has continued to increase as commodity prices remain strong. The net loss in the fourth quarter is due to an adjustment made to the depletion cost for the year. The casing repair to one of the Lodgepole wells increased the operating costs and also contributed substantially to the loss in the fourth quarter.

Liquidity and capital resources

Siga's current policy is to acquire assets through the use of cash flow and bank debt. The Company has a \$550,000 revolving production loan facility bearing interest at prime plus 1.5%. The bank reviews the credit facility annually and provided certain covenants are met, no principal repayments will be required in the next 12 months. The loan is secured by a general security agreement covering all present and after acquired property and a first fixed and floating charge debenture of \$1 million over the assets in the Company. The Company has complied with all covenants of the line of credit and does not expect that any principal repayments will be required in the next 12 months. At June 30, 2005, the bank debt is \$270,000. The Company does not anticipate issuing any new equity at the present time, but would do so if the appropriate producing property acquisition warranted it.

Financial Instruments and Other Instruments

Siga currently sells all of its natural gas production into the spot market. During the year, the Company entered into the following natural gas costless collars contracts for approximately one-third of its current gas production:

Volume (GJ/day)	Volume (GJ)	Ceiling (\$/GJ)	Floor (\$/GJ)	Term
90	13,590	\$10.00	\$8.50	November 2004 to March 2005
90	19,260	\$ 6.80	\$6.10	April 2005 to October 2005

Transactions with Related Parties

Rent and other general and administrative expenses recorded at the exchange amount include \$78,143 (2004 - \$39,747) of charges by a company controlled by a director. At June 30, 2005, \$3,018 (2004 - \$2,344) was included in accounts payable.

The company also participates in various oil and gas ventures with two companies controlled by a director. The amounts due from (to) these companies are in the normal course of business and are receivable (payable) within the following year. At June 30, 2005, \$46,409 (2004 - \$10,173) was included in accounts payable and \$10,565 (2004 - \$Nil) was included in accounts receivable.

Critical Accounting Estimates

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant.

Changes in Accounting Policies Including Initial Adoption

Oil and Gas Full Cost Accounting

As at July 1, 2004, the Company adopted Accounting Guideline 16, "Oil and Gas Accounting – Full Cost" (AcG-16), replacing AcG-5. AcG-16 provides for methodology consistent with CICA Section 3063, "Impairment of Long-lived Assets" and CICA Section 3475, "Disposal of Long-lived Assets and Discontinued Operations."

The new standards prescribed the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure the impairment amount as the difference between the carrying amount and the fair value. In addition, discontinued operations disclosure will be required upon the disposition of a component or cost centre of the entity rather than an entire business segment. There was no effect on the Company's financial statements.

Asset Retirement Obligation

On July 1, 2003, the Company retroactively adopted the CICA's recommendation on asset retirement obligations. The Company identified obligations related to oil and gas properties and recorded a liability equal to the present value of expected future asset retirement obligations. The total future asset retirement obligation was estimated by management based on the estimated costs to reclaim and abandon the Company's wells and the estimated timing of the costs to be incurred in future periods. The new standard was adopted and prior period comparative balances were restated in the audited financial statements for the year ended June 30, 2004 and 2003.

Stock Based Compensation Plan

Effective July 1, 2003, CICA section 3870 "Stock based compensation and other stock based payments" requires all public companies to expense all stock based compensation. This standard provides for the retroactive adoption of fair value accounting effective July 1, 2003. After July 1, 2003, the fair value of stock based compensation will be recognized as an expense in the financial statements. The change was accounted for retroactively without restatement of prior period numbers.

Outstanding Share Data

Authorized share capital of the Company consists of an unlimited number of common voting shares, unlimited number of first preferred shares and an unlimited number of second preferred shares. No preferred shares have been issued.

- a) The following summarizes the movement in the share capital account for the year:

	Number of shares	\$ Amount
June 30, 2005 and 2004	<u>13,358,809</u>	<u>\$1,287,540</u>

- b) Pursuant to a stock option plan for directors, officers and consultants, there were 1,310,000 options outstanding at June 30, 2005 (2004 –1,310,000). The options entitle the holders to acquire 1,310,000 common shares of the Company for \$0.10 per common share. All stock options have vested. If not exercised, these options will expire in November 2007 and March 2008. Information regarding the Company's stock options is summarized below:

	Number of Options	Weighted average exercise price
Outstanding June 30, 2005 and 2004	<u>1,310,000</u>	<u>\$0.10</u>

Outlook

Siga Resources Limited is fairly well positioned to look at business opportunities to enhance shareholder value. The Company is exposed to numerous property acquisition packages and drilling prospects and will pursue these opportunities if they can benefit the Corporation's asset base.

We will continue to look for compatible business partners to amalgamate or merge with to create a company with a more sustainable production level.

Reserves

Reserves were evaluated under the new standards contained in National Instrument 51-101 ("NI 51-101"), which became mandatory at the end of December, 2003.

Reserves Summaries

The new definitions for reserves contained in NI 51-101 are as follows:

1. Proved Reserves – are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
2. Probable Reserves – are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
3. Possible Reserves – are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Disclosure provided herein in respect of BOE units may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The corporate reserve estimates, dated June 30, 2005 were prepared by Fekete Associates Inc. ("Fekete"), an independent engineering firm, in accordance with the definitions set out under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101").

The Reserves Committee of Siga Resources Limited, comprised of one independent Director and one dependent Director, met with Fekete representatives and has reviewed the independent evaluator's report in accordance with the Committee's mandate. The following tables are presented in accordance with NI 51-101.

Reserve Life Index

Siga's reserve life index at June 30, 2005 for proven and probable reserves was 11.8 years. The Company had a reserve life index of 5.0 years on proven reserves.

Proven Reserves (Mboe)	101.1	Proven & Probable Reserves (Mboe)	236.9
2005 Production (Mboe)	20.0	2005 Production (Mboe)	20.0
Reserve Life Index (years)	5.0	Reserve Life Index (years)	11.8

**Summary of Oil and Gas Reserves and Net Present Values of Future Net Reserves
as at June 30, 2005
Forecast Prices and Costs**

Reserves Category	Reserves						Before Income Taxes				
	Light/ Med. Oil		Natural Gas		Natural Gas Liquid		Discounted at (%/year)				
	Gross	Net	Gross	Net	Gross	Net	0	5	10	15	20
	Mbbl	Mbbl	MMcf	MMcf	Mbbl	Mbbl	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Proved Developed Producing	43.5	42.0	298	240	4.1	2.9	2671.9	2236.2	1935.1	1716.5	1551.2
Developed Non-Producing	-	-	23	16	-	-	64.1	55.7	48.7	42.9	37.9
Undeveloped	-	-	-	-	-	-	-	-	-	-	-
Total Proved	43.5	42.0	321	256	4.1	2.9	2736.0	2291.9	1983.8	1759.4	1589.1
 Probable	 99.7	 88.0	 198	 159	 3.1	 2.2	 3577.6	 2521.1	 1915.4	 1525.9	 1254.6
 Total Proved plus Probable	 143.2	 130.0	 519	 415	 7.2	 5.1	 6313.6	 4813.0	 3899.2	 3285.3	 2843.7

**Total Future Net Revenue (Undiscounted)
as at June 30, 2005
Forecast Prices and Costs**

Reserves Category	Revenue	Royalties	Operating	Mineral	Development	Abandonment	Future Net Revenue Before Income Tax
			Costs	Tax	Costs	Costs	
Category	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Proved Reserves	4919	639	1342	11	-	178	2749
Proved plus Probable	12084	1618	3377	26	-	258	6805
Reserves							

**Future Net Revenue by Production Group
As at June 30, 2005
Forecast Prices and Costs**

<u>Reserves Category</u>	<u>Production Group</u>	<u>Future Net Revenue Before Income Tax disc. at 10%/year (\$M)</u>	
Proved Reserves	Light and Medium Crude Oil (incl. Solution gas and other by-products)	47%	932
	Natural Gas	53%	<u>1052</u>
			1984
Proved plus Probable	Light and Medium Crude Oil (incl. Solution gas and other by-products)	63%	2456
	Natural Gas	37%	<u>1443</u>
			3899

October 7, 2005

Auditors' Report

To the Shareholders of Siga Resources Limited

We have audited the balance sheets of **Siga Resources Limited** as at June 30, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

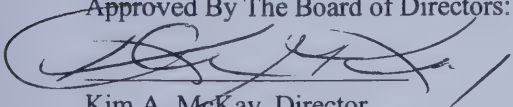
Chartered Accountants

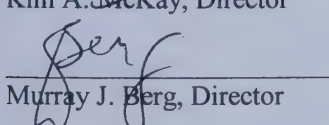
Calgary, Alberta

Balance Sheet

	June 30	
Assets	2005	2004
Current assets:		
Cash	\$ 254,907	\$ 6,660
Accounts receivable	178,468	124,892
Prepaid expenses	5,462	3,910
	<u>438,837</u>	<u>135,462</u>
Property, plant and equipment (Note 1 and 3)	<u>1,148,396</u>	<u>799,688</u>
	<u>\$ 1,587,233</u>	<u>\$ 935,150</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 552,540	\$ 121,681
Bank indebtedness (Note 4)	<u>270,000</u>	<u>190,000</u>
	<u>822,540</u>	<u>311,681</u>
Asset Retirement Obligation (Note 5)	287,511	205,854
Shareholders' equity:		
Share capital (Note 6)	1,287,540	1,287,540
Deficit	<u>(810,358)</u>	<u>(869,925)</u>
	<u>477,182</u>	<u>417,615</u>
	<u>\$ 1,587,233</u>	<u>\$ 935,150</u>
Contingency (Note 12)		

Approved By The Board of Directors:


Kim A. McKay, Director


Murray J. Berg, Director

- See Accompanying Notes -

Statement of Operations and Deficit

	Years ended June 30	
	2005	2004
Revenue:		
Petroleum and natural gas sales	\$ 920,634	\$ 757,806
Royalty expense	<u>(148,557)</u>	<u>(156,079)</u>
	<u>772,077</u>	<u>601,727</u>
Expenses:		
Depletion, depreciation and accretion (Note 1)	239,884	176,467
General and administrative	207,793	144,097
Interest	9,654	13,969
Operating	<u>255,179</u>	<u>220,864</u>
	<u>712,510</u>	<u>555,397</u>
Net income for the year	59,567	46,330
Deficit at beginning of year	(869,925)	(916,255)
Deficit at end of year	<u>\$ (810,358)</u>	<u>\$ (869,925)</u>
Basic and Diluted earnings per share	<u>\$ 0.004</u>	<u>\$ 0.003</u>

- See Accompanying Notes -

Statement of Cash Flows

	Years ended June 30	
	2005	2004
Operating:		
Net income for the year	\$ 59,567	\$ 46,330
Add: Items not requiring a current cash flow		
Depletion, depreciation and accretion	239,884	176,467
Expenditures on site restoration and abandonment	(41,363)	(9,881)
	<u>258,088</u>	<u>212,916</u>
Change in non-cash working capital (Note 11)	375,731	7,281
Cash provided by operations	<u>633,819</u>	<u>220,197</u>
Financing:		
Increase (decrease) in bank indebtedness	80,000	(100,000)
Cash provided by (used in) financing	<u>80,000</u>	<u>(100,000)</u>
Investing:		
Acquisition of property, plant and equipment	(465,572)	(206,612)
Proceeds on disposal of property, plant and equipment	-	89,311
Cash used in investing	<u>(465,572)</u>	<u>(117,301)</u>
Increase in cash	248,247	2,896
Cash at beginning of year	<u>6,660</u>	<u>3,764</u>
Cash at end of year	\$ <u>254,907</u>	\$ <u>6,660</u>
Interest paid in the year	\$ <u>9,654</u>	\$ <u>13,969</u>

- See Accompanying Notes -

Notes to Financial Statements

June 30, 2005 and 2004

1. Significant accounting policies:

Exploration and development costs

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs directly related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities. All expenditures accumulated are depleted or amortized using the composite unit-of-production method based on estimated proven reserves as determined by independent petroleum engineers. Gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of gas to one barrel of oil. Proceeds on the disposal of properties are applied against capitalized costs. Gains or losses are recognized only if such treatment alters the depletion rate by more than 20%.

In calculating the ceiling test, an impairment loss is recognized in net earnings when the carrying amount is not recoverable and exceeds the fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

- a) the fair value of proved and probable reserves; and
- b) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Property, plant and equipment

Other assets, which includes office and computer equipment, are recorded at cost. The Company provides for depreciation using the declining balance method using 20 percent for office equipment and 30 percent for computer equipment.

Joint venture accounting

A substantial part of the Company's operations are carried out through joint ventures. The financial statements reflect only the Company's proportionate interest in such activities.

Notes to Financial Statements

June 30, 2005 and 2004

1. Significant accounting policies (continued):

Management estimates and measurement uncertainty

The preparation of the financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period.

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant.

Stock-based compensation plan

The Company has a stock option plan enabling certain officers, directors and consultants to purchase common shares at exercise prices equal to the market price on the date the option is granted. The Company has adopted the fair value method for accounting for stock based compensation. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings in the period of the option grant, taking into account the vesting periods of the options.

Revenue recognition

Revenue from petroleum and natural gas sales are recognized when title passes from the Company to its customers.

Asset Retirement Obligation

An asset retirement obligation is recognized at its fair market value in the period in which it is incurred and a corresponding increase in the carrying value of property and equipment. The fair value calculation is based on discounted cash flows using industry guidelines and management's estimate on a property-by-property basis. The liability is subsequently adjusted due to the passage of time and is recognized as an accretion expense in the statement of operations and deficit. The liability is further adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of property and equipment is amortized using the unit-of-production method based on estimated gross proved reserves as determined by independent reserve engineers. Actual costs, as incurred, are applied to the asset retirement obligation.

Notes to Financial Statements

June 30, 2005 and 2004

2. Change in Accounting Policies:

Oil and gas full cost accounting

As at July 1, 2004, the Company adopted Accounting Guideline 16, "Oil and Gas Accounting – Full Cost" (AcG-16), replacing AcG-5. AcG-16 provides for methodology consistent with CICA Section 3063, "Impairment of Long-lived Assets" and CICA Section 3475, "Disposal of Long-lived Assets and Discontinued Operations."

The new standards prescribed the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure the impairment amount as the difference between the carrying amount and the fair value. In addition, discontinued operations disclosure will be required upon the disposition of a component or cost centre of the entity rather than an entire business segment. There was no effect on the Company's financial statements.

3. Property, plant and equipment:

Property, plant and equipment are recorded at cost and are comprised of the following:

	June 30	
	2005	2004
Petroleum and natural gas assets	\$ 2,673,470	\$ 2,099,338
Other assets	<u>23,094</u>	<u>23,094</u>
	2,696,564	2,122,432
Accumulated depletion and depreciation	<u>1,548,168</u>	<u>1,322,744</u>
	\$ <u>1,148,396</u>	\$ <u>799,688</u>

There were no general and administrative costs capitalized in either year.

Notes to Financial Statements

June 30, 2005 and 2004

3. Property, plant and equipment:

The future commodity prices used in the impairment test were based on June 30, 2005 commodity price forecasts of the Company's independent reserve engineers adjusted for differentials specific to the Company's reserves. The table summarizing the future benchmark prices the Company used in the impairment test can be found below:

Price Estimates Used for Ceiling Test			
	Alberta AECO	Edmonton	Edmonton
	Spot	Light	Condensate
	(\$Cdn/Mcf)	(\$Cdn/Bbl)	(\$Cdn/Bbl)
2005	\$7.08	\$64.94	\$62.04
2006	\$7.13	\$65.08	\$62.15
2007	\$7.18	\$65.20	\$62.38
2008	\$7.19	\$65.20	\$62.52
2009	\$7.22	\$65.43	\$62.45
2010 ⁽¹⁾	\$7.24	\$65.64	\$62.38

(1) Prices were held constant for 2010 onward.

As a result of the ceiling test, no ceiling test impairment was required for the period ended June 30, 2005.

4. Bank indebtedness:

The Company has a \$550,000 revolving production loan facility bearing interest at prime plus 1.5%. The credit facility is reviewed annually by the bank and provided certain covenants are met, no principal repayments will be required in the next 12 months. The loan is secured by a general security agreement covering all present and after acquired property and a first fixed and floating charge debenture of \$1 million over the assets in the Company.

Notes to Financial Statements

June 30, 2005 and 2004

5. Asset Retirement Obligations:

Future asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in the future periods. The Company estimates the undiscounted cash flows related to asset retirement obligations, adjusted for inflation, to be incurred over the estimated reserve life of the underlying long-lived assets will total \$476,728 (2004 – \$405,651). The fair value of the asset retirement obligation as at June 30, 2005 is \$287,511 (2004 - \$205,854) using a discount rate of 7.15% and an inflation rate of 2%. These payments are expected to be made over the life of the wells with the majority of the costs incurred between 2010 and 2015.

	June 30	
	2005	2004
Asset retirement obligations – Beginning of year	\$205,854	\$151,807
New liabilities incurred	112,182	53,075
Accretion expense	14,460	10,853
Abandonment costs incurred	(41,363)	(9,881)
Revisions	(3,622)	-
Asset retirement obligations – End of year	<u>\$287,511</u>	<u>\$205,854</u>

6. Share capital:

Authorized share capital of the Company consists of an unlimited number of common voting shares, unlimited number of first preferred shares and an unlimited number of second preferred shares. No preferred shares have been issued.

- b) The following summarizes the movement in the share capital account for the year:

	Number of shares	\$ Amount
June 30, 2005 and 2004	<u>13,358,809</u>	<u>\$1,287,540</u>

Notes to Financial Statements

June 30, 2005 and 2004

6. Share capital (continued):

- b) Pursuant to a stock option plan for directors, officers and consultants, there were 1,310,000 options outstanding at June 30, 2005 (2004 –1,310,000). The options entitle the holders to acquire 1,310,000 common shares of the Company for \$0.10 per common share. All stock options have vested. If not exercised, these options will expire in November 2007 and March 2008. Information regarding the Company's stock options is summarized below:

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2005 and 2004	<u>1,310,000</u>	<u>\$0.10</u>

- (c) No compensation expense is recognized in the financial statements for stock options granted to employees and directors. Effective January 1, 2002 Canadian Generally Accepted Accounting Principles require the disclosure of the impact of using the fair value method on compensation costs and recorded net income. If the fair value method had been used, the Company's net income and earnings per share would approximate the following pro-forma amounts:

	For the Years Ended	
	June 30, 2005	June 30, 2004
Net Income (\$)		
As Reported	\$59,567	\$46,330
Pro forma	\$59,567	\$46,330
Earnings per share		
As Reported	\$0.004	\$0.003
Pro forma	\$0.004	\$0.003

7. Income taxes:

The Company has non-capital losses for income tax purposes of approximately \$104,000 (2004 - \$101,000) which are available to be carried forward, and applied against future taxable income. If unused, these losses will expire at various times to the year 2006. The Company's income tax value of assets exceeds their book value by \$2,257,000 (2004 - \$784,851). The potential benefit of these amounts has not been recognized in these financial statements.

Notes to Financial Statements

June 30, 2005 and 2004

7. Income taxes (continued):

The income taxes on the statement of operations and deficit differs from the income taxes which would be expected by applying the federal and provincial income tax rates to the income for the year due to the realization of the excess of the tax values over book values not being more likely than not because of the Company's large deficit and lack of a history of profitability.

8. Related party transactions:

Rent and other general and administrative expenses recorded at the exchange amount include \$78,143 (2004 - \$39,747) of charges by a company controlled by a director. At June 30, 2005, \$3,018 (2004 - \$2,344) was included in accounts payable.

The company also participates in various oil and gas ventures with two companies controlled by a director. The amounts due from (to) these companies are in the normal course of business and are receivable (payable) within the following year. At June 30, 2005, \$46,409 (2004 - \$10,173) was included in accounts payable and \$10,565 (2004 - \$Nil) was included in accounts receivable.

9. Remuneration of officers and directors:

The aggregate remuneration paid or payable in the year to directors and senior officers, as defined in the Alberta Business Corporations Act, amounted to \$48,000 (2004 - \$41,000).

10. Financial instruments:

The Company's financial instruments that are included in the balance sheet are comprised of accounts receivable, cash and current liabilities. The fair value of these financial instruments approximate their carried amount.

A substantial portion of the Company's accounts receivable, are with customers in the oil and gas industry and are subject to normal industry credit risk. The Company is subject to normal interest rate risk surrounding its revolving production loan facility.

Notes to Financial Statements

June 30, 2005 and 2004

10. Financial instruments (continued):

The Company uses derivative financial instruments to manage its commodity price exposure. Financial instruments used for the year ended June 30, 2005:

Natural Gas Costless Collars:

Volume (GJ/day)	Volume (GJ)	Ceiling \$/GJ	Floor \$/GJ	Term	Gain (Loss)
90	13,590	\$10.00	\$8.50	November 2004 to March 2005	\$29,141
90	8,190	\$ 6.80	\$6.10	April 2005 to June 2005	(1,759)
90	11,070	\$ 6.80	\$6.10	July 2005 to October 2005	-
Total Realized Gain					\$27,382
Unrealized Loss					(\$29,509)

The unrealized loss will be recognized into expense in the month in which it is incurred.

11. Statement of cash flows:

The changes in non-cash working capital are comprised of:

	2005	2004
Decrease (increase) in accounts receivable	\$ (53,576)	\$ 8,427
Decrease (increase) in prepaid expenses	(1,552)	3,406
(Decrease) increase in accounts payable	430,859	(4,552)
	<u>\$ 375,731</u>	<u>\$ 7,281</u>

12. Contingent liability:

The Company has been named as a defendant in a lawsuit with respect to a dispute over a minority ownership interest in a well. The outcome of the lawsuit along with the potential liability, if any, arising from the lawsuit is not determinable at this time. As a result, no liability has been reflected in these financial statements.

13. Comparative figures:

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

CORPORATE INFORMATION

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Directors

Murray J. Berg, Chairman of the Board
Kim A. McKay, President
Robert S. Bruce
Tibor Fekete
John L. Reid-Bicknell
John C. Eadie

Officers

Kim A. McKay, President
Murray J. Berg, Chairman of the Board
Greg Ziegler, Vice President – Operations
Ivabelle Cassidy, Manager - Accounting
Julia Turnbull, Corporate Secretary

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors

Macleod Dixon
Calgary, Alberta

Bank

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3rd Floor, 239 – 8th Avenue S.W.
Calgary, AB T2P 3B6

Listing Information

TSX Venture Exchange
Symbol: "SIG"

Standard Abbreviations

Bcf	= Billion cubic feet	MSTB	= Thousand standard barrels
MCF	= Thousand cubic feet	\$M	= Thousand dollars
BBL	= Barrel	BOE	= Barrel of Oil Equivalent
Mbbl	= Thousand Barrels	MMcf	= Million Cubic Feet of Natural Gas
MMBtu	= Million British Thermal Units	m ³	= Cubic Meter
e ³ m ³	= Thousand Cubic Meters		

